

Wexford County
Department of Public Works,
Wastewater Collection System # I
(a fund of the County of Wexford, Michigan)

Financial Report
December 31, 2003

Wexford County Department of Public Works, Wastewater Collection System # I

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Independent Auditor's Report

To the Board of Public Works
Wexford County
Cadillac, Michigan

We have audited the basic financial statements of Wexford County, Michigan as of December 31, 2003 and for the year then ended and have issued our report thereon dated May 6, 2004. Those basic financial statements are the responsibility of the management of Wexford County, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Wexford County, Michigan taken as a whole. The accompanying financial statements of the Wexford County Department of Public Works, Wastewater Collection System #1 are presented for the purpose of additional analysis and are not a required part of Wexford County, Michigan's basic financial statements. The accompanying financial statements of the Wexford County Department of Public Works, Wastewater Collection System #1 have been subjected to the auditing procedures applied in the audit of the County's basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the County's basic financial statements taken as a whole.

As discussed in Note 8, as of January 1, 2003, the County implemented the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Plante & Moran, PLLC

May 6, 2004



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Wexford County Department of Public Works, Wastewater Collection System # I

Statement of Net Assets December 31, 2003

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 57,416
Investments (Note 2)	<u>530,000</u>

Total current assets 587,416

Noncurrent assets - Capital assets - Net (Note 3) 24,584

Total assets 612,000

Liabilities - Current

Accounts payable	7,132
Accrued payroll and other liabilities	<u>2,121</u>

Total liabilities 9,253

Net Assets

Invested in capital assets - Net of related debt	24,584
Retained earnings - Unreserved	<u>578,163</u>

Total net assets \$ 602,747

Wexford County Department of Public Works, Wastewater Collection System # I

Statement of Revenue, Expenses, and Changes in Net Assets Budget and Actual Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenue			
Charges for service:			
Cherry Grove Township		\$ 101,074	
Clam Lake Township		8,799	
Selma Township		82,569	
Total charges for service	\$ 196,000	192,442	\$ (3,558)
Other revenue	3,000	3,686	686
Total operating revenue	199,000	196,128	(2,872)
Operating Expenses			
Salaries and wages	56,250	50,313	5,937
Employee fringe benefits	24,862	23,969	893
Office supplies	1,400	1,173	227
Operating supplies	16,916	40,555	(23,639)
Legal and professional fees	10,439	9,491	948
Utilities	30,400	28,326	2,074
Wastewater collection	52,617	43,500	9,117
Insurance	11,353	11,353	-
Travel expenses	500	477	23
Repairs and maintenance	10,390	2,143	8,247
Interconnections	2,400	2,237	163
Engineering services	4,000	3,600	400
Computer services	1,900	1,091	809
Administrative	4,784	4,784	-
Capital outlay	25,749	-	25,749
Depreciation expense	9,561	4,665	4,896
Publications	150	14	136
Miscellaneous expense	(6)	189	(195)
Total operating expenses	263,665	227,880	35,785
Operating Loss	(64,665)	(31,752)	32,913
Nonoperating Income - Investment income	23,800	10,173	(13,627)
Change in Net Assets	(40,865)	(21,579)	19,286
Net Assets - January 1, 2003	624,326	624,326	-
Net Assets - December 31, 2003	\$ 583,461	\$ 602,747	\$ 19,286

Charges for service are budgeted in total. The breakdown of actual revenue received from the townships is provided for additional information only.

Wexford County Department of Public Works, Wastewater Collection System # I

Statement of Cash Flows Year Ended December 31, 2003

Cash Flows from Operating Activities

Receipts from customers	\$ 196,128
Payments to suppliers	(149,894)
Payments to employees	<u>(74,482)</u>
Net cash used in operating activities	(28,248)

Cash Flows from Capital and Related Financing Activities -

Purchase of capital assets	(325)
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Cash Flows from Investing Activities

Interest received on investments	10,173
Proceeds from the sale and maturities of investment securities	(2,232,024)
Purchase of investment securities	<u>2,272,425</u>
Net cash provided by investing activities	<u>50,574</u>

Net Increase in Cash 22,001

Cash - January 1, 2003 35,415

Cash - December 31, 2003 \$ 57,416

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (31,752)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:	
Depreciation	4,665
Accounts payable	(961)
Accrued and other liabilities	<u>(200)</u>
Net cash used in operating activities	<u><u>\$ (28,248)</u></u>

Wexford County Department of Public Works, Wastewater Collection System # I

**Notes to Financial Statements
December 31, 2003**

Note I - Summary of Significant Accounting Policies

The accounting policies of the Wexford County Department of Public Works, Wastewater Collection System #I (the "System") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The System is operated by Wexford County, Michigan (the "County") and is included in the County's basic financial statements as an Enterprise Fund. The following is a summary of the significant accounting policies:

Reporting Entity - The System operates and maintains the Lakes Cadillac-Mitchell sewer loop project of Selma, Cherry Grove, and Clam Lake Townships. The System does not have its own treatment facility, but contracts with the City of Cadillac for sewage treatment. At present, the County has legal title to the sewer system, but each township has capitalized its proportionate share of the cost of the project as an asset in its sewer fund. The purpose of capitalizing the system in the township records is the provision in the lease contract that calls for the County to transfer ownership of the System to the townships upon maturity of the bonds. Each township has contracted with the System to operate and maintain the System.

Basis of Accounting - The accrual basis of accounting is used by the System. The System follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The System has elected not to follow private sector standards used after November 30, 1989.

Cash Equivalents - For the purpose of the statement of cash flows, the System considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments are recorded at fair value, based on quoted market prices.

Inventories - Inventories are not significant and, therefore, have been expensed when purchased.

Receivables - All trade receivables of the System are shown without an allowance for uncollectible accounts because delinquent amounts attach as a lien against the benefited property, which assures their eventual collection.

Wexford County Department of Public Works, Wastewater Collection System # I

**Notes to Financial Statements
December 31, 2003**

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. The assets of the System consist of equipment items used to run the System.

Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

The deposits and investments of the System consist entirely of cash and certificates of deposit. These deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$587,416. Of that amount, up to \$100,000 was covered by federal depository insurance. The insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the System, if any, is not determinable. Of the proceeding deposit amounts, therefore, the uninsured and uncollateralized portions totaled at least \$487,416.

The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all of the bank deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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**Notes to Financial Statements
December 31, 2003**

Note 2 - Deposits and Investments (Continued)

Investments - Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are related as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Board allows the County Treasurer to invest in all investments authorized by Public Act 20 of 1943, as amended.

The County of Wexford, Michigan's deposits and investments policies are in accordance with statutory authority.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at December 31, 2003. Risk Category 1 investments are held by the counterparty's trust department (or agent) in the County's name and include those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the County or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the County's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the County's name

The System's investments consist of certificates of deposit totaling \$530,000.

Wexford County Department of Public Works, Wastewater Collection System # I

Notes to Financial Statements December 31, 2003

Note 3 - Capital Assets

The System's capital assets are composed of the following:

	Balance January 1, 2003	Additions	Balance December 31, 2003	Depreciable Life - Years
Capital assets being depreciated:				
Building and improvements	\$ 22,208	\$ -	\$ 22,208	25
Machinery and equipment	48,385	-	48,385	5-20
Vehicles	18,386	-	18,386	5
Furniture and fixtures	13,646	324	13,970	7
Total capital assets being depreciated	102,625	324	102,949	
Accumulated depreciation:				
Building and improvements	6,690	888	7,578	
Machinery and equipment	41,394	2,362	43,756	
Vehicles	14,698	545	15,243	
Furniture and fixtures	10,918	870	11,788	
Total accumulated depreciation	73,700	4,665	78,365	
Net capital assets being depreciated	<u>\$ 28,925</u>	<u>\$ (4,341)</u>	<u>\$ 24,584</u>	

Depreciation expense is calculated on the straight-line method over the estimated useful lives as indicated above.

Note 4 - Postemployment Benefits

The County provides health care benefits to all full-time employees upon retirement. The cost associated with this benefit is charged to the County's self-insurance fund when incurred. Currently, two retirees are eligible. The County includes pre-Medicare retirees and their dependents in its insured health care plan. The County charges the retirees a monthly fee to participate. During the year ended December 31, 2003, the County collected approximately \$2,700 from retirees.

Wexford County Department of Public Works, Wastewater Collection System # I

**Notes to Financial Statements
December 31, 2003**

Note 5 - Defined Benefit Pension Plan

The County's employees who operate the System are covered by a defined benefit pension plan. Complete information about the plan can be found in the County's basic financial statements. Annual pension expense allocated to the System amounted to approximately \$3,000 for the year ended December 31, 2003.

Note 6 - Risk Management

The System is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The System participates in the County's risk management program. The County has purchased commercial insurance for workers' compensation and medical benefit claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Michigan Municipal Risk Management Authority that the Michigan Municipal Risk Management Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

Detailed information concerning estimates of liability for claims is provided in the County's basic financial statements.

Note 7 - Budget

The State's Budget Act does not require a formal budget to be adopted for Enterprise Funds. However, an annual budget is adopted and is included in these financial statements for management control purposes.

Note 8 - Accounting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The County has applied the provisions of this statement in the accompanying financial statements (including notes to the financial statements). The County has elected to implement the general provisions of the statement. There were no significant changes to the System's financial statements.